

SECTION 5

CHAPTER 2

INTERNAL AUDIT REPORTS

The objectives of an internal audit (also referred to as a program audit) include determining: (1) The extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved; (2) The effectiveness of organizations, programs, activities, or functions; and, (3) Whether the audited entity has complied with laws and regulations applicable to the program. The OIG conducts and issues internal audits and evaluations of a Departmental, bureau, or office program or operation, or an audit of an insular area or tribal government.

The internal audit process (see flowchart at the end of the chapter) begins with a memorandum from the OIG to the appropriate management official (either an assistant secretary or a bureau/office director) announcing the start of an audit. An entrance conference is coordinated between the OIG and appropriate management whether Department-wide or bureau/office specific. The entrance conferences' purpose is for the OIG to discuss the scope and objectives of the new audit start. The OIG can also choose to provide only general information and state that after the audit survey phase, specific audit scope and objectives will be defined. Generally, after the entrance conference audit work will begin.

After the audit work has been completed, the OIG holds an exit conference with program officials. It is during the exit conference that the OIG discusses preliminary audit findings and can ask for additional information prior to the issuance of a draft audit report. Management and program officials are encouraged to use the exit conference as an opportunity to thoroughly review and discuss preliminary findings with the auditors, to voice objections or concerns with the preliminary audit findings, and to consider issues that may impact the implementation of audit recommendations such as the availability of funds needed to implement audit recommendations or the need to publish regulations.

Factors that impact the implementation of audit recommendations should be taken into consideration when establishing target implementation dates. Management should establish target implementation dates that are both reasonable and achievable. Target dates should allow sufficient time for completion of all required actions so that delays of implementation dates may be kept to a minimum. If it is necessary to establish long-term corrective action dates, an interim corrective action plan should be established and provided to PFM that describes continuing actions that will be taken so that the impact of a deficiency on affected programs and operations may be kept to a minimum.

After all audit work has been completed, the OIG will issue a draft audit report to which management normally has 30 – 45 calendar days to respond. Draft reports allow management the opportunity to review audit findings and provide comments that are incorporated into the final report. If, after management has responded to the recommendations in the final internal audit report, the OIG and management cannot agree on management's proposed corrective actions, or if management disagrees with the OIG's findings, the OIG will refer the report to PFM (through the Assistant Secretary - PMB) for resolution within 90 calendar days of the

report's issuance. OMB Circular A-50, "Audit Follow-Up," directs that resolution should be made within a maximum of six months after issuance of a final report.

Internal Audit Reports Referred for Resolution

Because the audit follow-up official has delegated responsibility to PFM, the OIG refers internal reports directly to PFM for resolution action (see flow chart at the end of the chapter). Upon receipt of the referral, PFM enters the report and its recommendations into Departmental tracking and notifies management and the appropriate audit liaison officer of the referral.

PFM will review the issues in dispute and discuss these issues with management and the OIG in an informal attempt to reach agreement on audit findings and/or corrective actions. If PFM is unable to achieve resolution at this point, PFM will present the disputed issues to the Assistant Secretary - PMB with a suggested resolution plan. Upon the Assistant Secretary-PMB's determination of the resolution of the recommendations (known as the management decision), management and the OIG are notified and the report is closed unless there are open corrective actions which must be tracked through final action.

The OIG also refers to PFM for resolution, audit reports for which management has not responded within the specified time frame (30 calendar days for a final internal report). PFM then assumes responsibility for requesting and receiving management's response and making the final determination of the adequacy of the response. If all corrective actions have been taken when management responds, PFM closes the report and notifies management, the Audit Liaison Official, and the OIG of closure. If all corrective actions have not been taken, the report is entered into Departmental tracking through final action.

Internal Audit Reports Referred for Tracking

After management officials have reviewed the recommendations contained in an internal audit report and all corrective actions have been taken at this point, the audit report is closed by the OIG. If, however, there are any incomplete or unimplemented corrective actions, the OIG refers the report to PFM for departmental tracking (see flowchart at the end of the chapter). The date of the referral of the report to PFM for tracking is considered the date of the management decision. **Once the OIG has referred a report to PFM for tracking, the OIG closes the audit out in its tracking system and all tracking action becomes the responsibility of PFM.** All correspondence pertaining to the referred report should be provided to the Focus Leader, Internal Control and Audit Follow-up, PFM.

Upon receipt of a referral for tracking, PFM enters the report into departmental tracking and notifies the appropriate management official and audit liaison officer of the referral. PFM will continue to track unimplemented recommendations until sufficient documentation has been provided by management that all recommendations have been implemented and PFM makes a determination that the report may be closed.

Delays of Target Implementation Dates

Delays of target implementation dates occur when final implementation action has not been accomplished by the target date established by management. The Department considers delays of target dates to have a negative impact on programs and operations affected by the OIG recommendation. An indication of the importance the Department places on the timely implementation of audit recommendations is the establishment of an annual GPRA performance measure for timely completion of recommendations on schedule.

As soon as management becomes aware that an unimplemented recommendation will not be completed by the established target, PFM must be notified. Management's notification should provide an explanation for the delay, a new target date, and the name(s) of the official(s) responsible for implementation. Audit liaison officers should stay abreast of target dates so that they may notify the appropriate officials of the impending date and should coordinate with PFM, new information regarding corrective action target dates. It is imperative that PFM is informed of delay and revised target dates so that the Departmental audit follow-up tracking system is current and up to date.

Closure of Audit Reports and Documentation of Final Action

An internal audit report that has been referred to PFM for tracking may be closed when all unimplemented recommendations have been completed and accepted by PFM. Management is responsible for notifying PFM of the implementation of each recommendation until all recommendations have been completed. Management's notification must be complete, i.e., the notification should describe the OIG's recommendation and should discuss, in detail, all actions that were taken to implement the recommendation, how the implementation actions relate to the audit recommendation, and provide appropriate documentation of those actions.

The determination by PFM to close a recommendation is based upon the content of the OIG's recommendation and management's description and support for the actions that have been taken in response to the recommendation. For example, if the recommendation was for management to hire a computer analyst, the notification of implementation of the recommendation must provide the employee's name, date of hire, and, if appropriate, a copy of the position description. If the recommendation was to issue a specific directive, the notification of final action must state when the directive was issued and a copy of the directive must be provided. If the OIG recommends that a specific rule be developed and management provides documentation, in the form of a copy of the proposed rule, this action meets the intent of the recommendation and should be closed. If, however, the OIG recommends that a rule be published in the Federal Register, the recommendation cannot be closed until the rule has, in fact, been published in the Federal Register, either as a proposed or final rule. In that example, management's notification to PFM must include a copy of the proposed or final rule.

Examples of appropriate supporting documentation include, but are not limited to:

- Bureau/office manual chapters
- Departmental Manual chapters

- New or revised policies and/or operating procedures
- Code of Federal Regulation or Federal Register chapters

In those instances where supporting documentation may be too voluminous to reasonably provide to PFM, such as bureau policy manuals, an appropriate citation or reference or website is acceptable as long as the original documentation is available upon request by PFM.

There may be occasions where PFM closed an audit recommendation/report but the OIG does not concur and can ask for additional information or request the recommendation/audit be reopened.

The OIG often performs follow-up audits of issues that were previously reported. Follow-up audit reports will usually discuss recommendations made in previous reports and whether, during the follow-up audit process, the OIG has determined that recommendations made in earlier reports have been implemented. PFM will close those recommendations made in earlier reports that the OIG says have been implemented. All other recommendations will remain unimplemented until management requests closure from PFM.

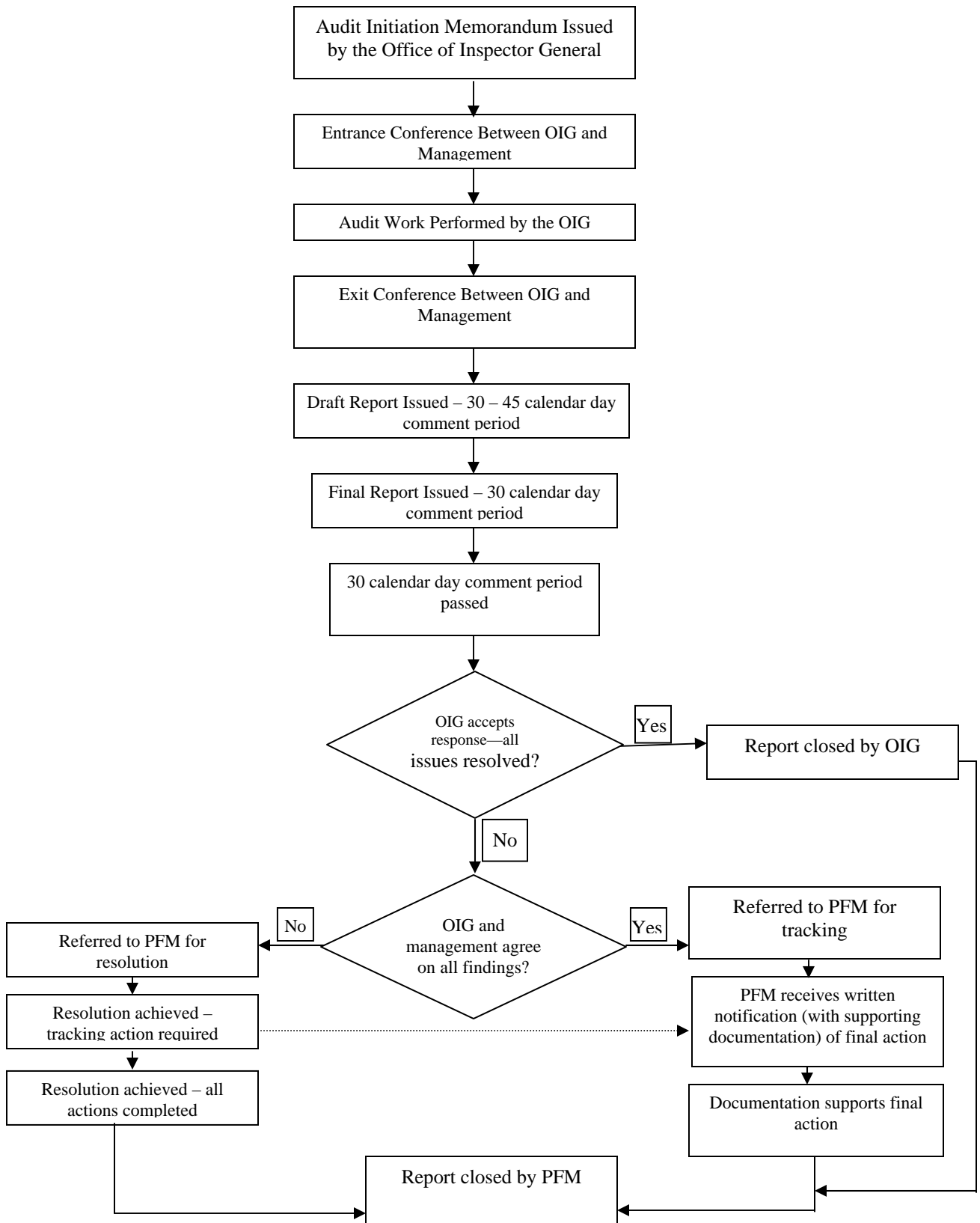
Internal Audits with Monetary Findings

For internal audit reports that contain OIG's assessment of the monetary impact of findings, such as funds to be put to better use, or potential additional or unpaid revenue, management is expected to indicate agreement or disagreement with the OIG's assessment of the monetary impact of the findings in its response to the audit report. If management has not indicated agreement with the monetary impact findings at the time of referral, the monetary finding(s) will not be entered into the Departmental tracking system.

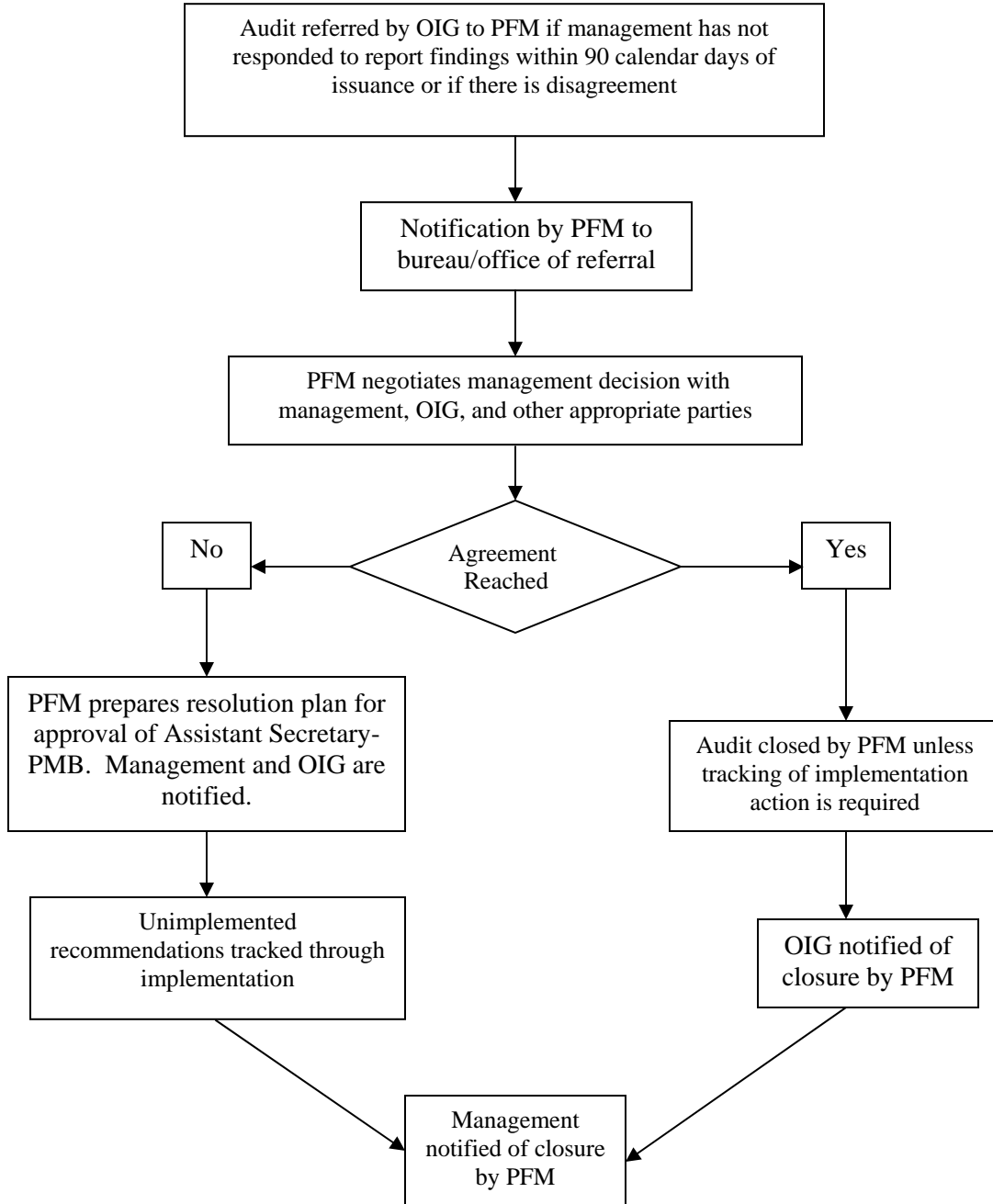
Insular Area Audits

The Department has administrative responsibility for coordinating federal policy in the territories of American Samoa, Guam, the U.S. Virgin Islands and the Commonwealth of the Northern Mariana Islands, and oversight of federal program funds in the freely associated states of the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau. The OIG has responsibility for conducting audits of insular area governments. The scope of the audits of insular areas conducted by the OIG include federal funds received by insular area governments and of local funds and issues. The OIG refers and PFM tracks, however, only those audits of insular area governments that involve federal funds and programs.

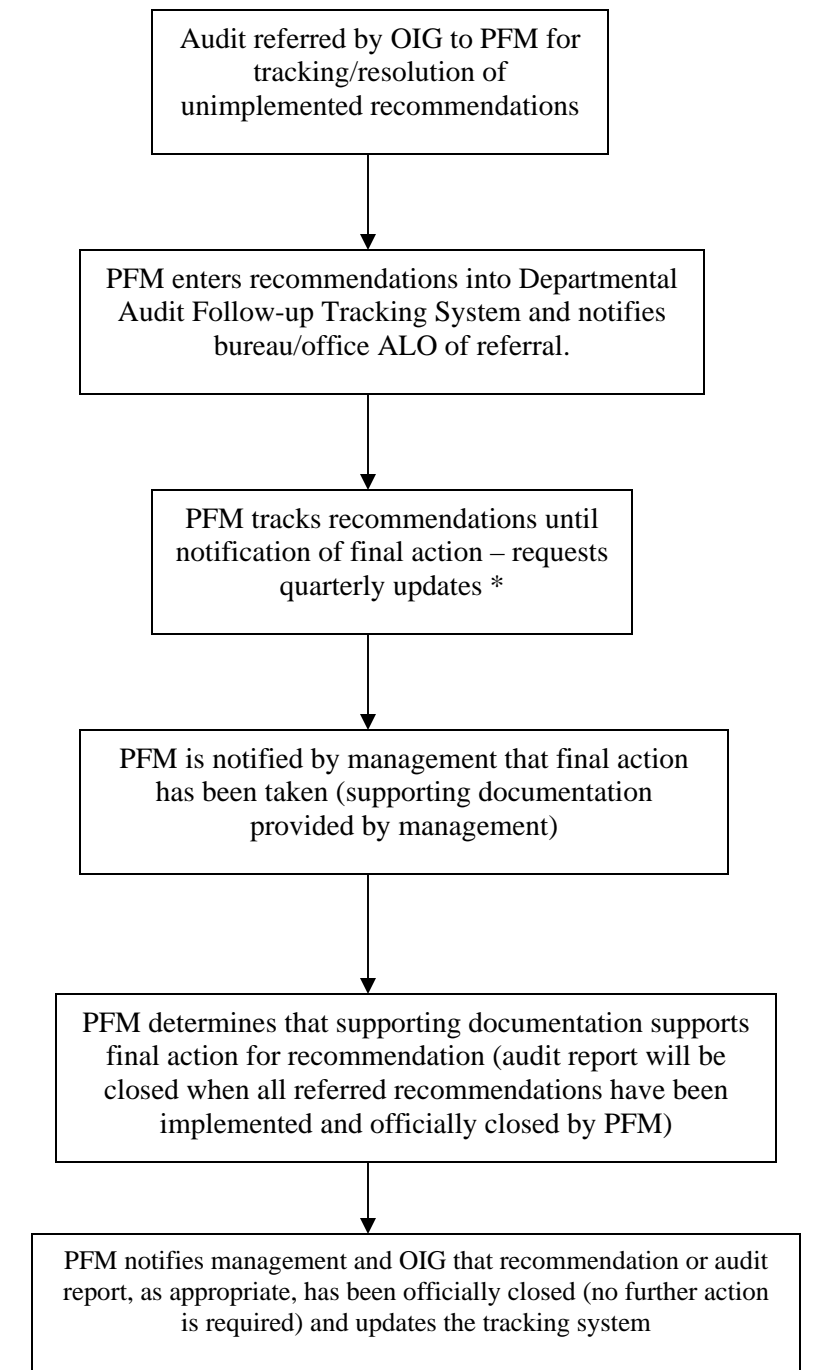
INTERNAL AUDIT PROCESS – OFFICE OF INSPECTOR GENERAL AUDIT REPORTS



**RESOLUTION OF INTERNAL AUDITS
ISSUED BY THE OFFICE OF
INSPECTOR GENERAL**



**PROCESS FOR TRACKING INTERNAL AUDIT REPORTS
REFERRED BY THE OFFICE OF INSPECTOR GENERAL**



* Financial statement audits status is reported on a monthly basis